Power of Tax Authorities, Tax Morale, and Tax Compliance: A Mediation Analysis in East Malaysia

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ABSTRACT

Manuscript type: Research paper

Research aims: This paper aims to scrutinise the association between the power-based model (power of tax authorities) and sociopsychological factors (tax morale) in the theoretical framework of the tax compliance model

Design/Methodology/Approach: A survey was completed by 116 self-employed and salaried individuals in East Malaysia. Partial Least Squares-SEM (PLS-SEM) was employed to analyse the data.

Research findings: The results show no impact of the power of tax authorities (coercive and legitimate power) on tax compliance. Only the coercive power of tax authorities has a significantly positive effect on tax morale. However, a significant negative relationship was found between tax morale and tax compliance. Finally, tax morale is proven to mediate coercive power and tax compliance.

Theoretical contribution/originality: The study adds to the body of knowledge by including the power of tax authority and tax morale in a tax compliance model. Theoretically, this study contributes to the literature that moral consideration should not be overlooked in its mediating value between the power of tax authorities and tax compliance.

Practitioner/policy implications: The present study provides novel insight into how tax administrators, especially the Inland Revenue Board of Malaysia (LHDN), utilise their power to influence tax morale and tax compliance.

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Research limitation: The study's limitation is that only a minority of higher-income and self-employed respondents participated. Future research should consider expanding the existing tax compliance model to be tested in a different region. Besides, other sociodemographic variables can be used as possible moderators in future studies.

1.   Introduction

The dilemma of governmental revenue through tax collection remains vital, particularly during post-Covid-19 economic situations. The global economic downturn trend has attracted researchers to provide several measures to sustain the economy, especially in developing countries. According to the Organisation for Economic Co-operation and Development (OECD) (2020), income tax accounts for more than 30% of all tax revenue collected. While governments have taken myriad approaches to curb tax non-compliance, the issues remain unresolved (Benk et al., 2015; Mcgee et al., 2008; Nadiah et al., 2020). As a result, failure to increase tax collection significantly negates economic growth (Bethencourt & Kunze, 2019), social services, and public infrastructure provision (Kar & Banerjee, 2018; Mohammed Abdullahi et al., 2019).

The unsettling reality in Malaysia is that 116,836 Malaysians owing RM2.55 billion in tax arrears, and 9,665 owing RM150 million in real property gains tax (RPGT) have been banned from leaving the country (Hashini, 2016). In 2018, only 2.27 million of 14.9 million Malaysian workers paid taxes (Lee, 2018), with 79,786 making exceptional wealth but failing to report tax accurately (Chu & Ganeshwaran, 2018). Hence, tax authorities worldwide rely on their power to solve these problems. In keeping with the relevance of power to ensure the collection of taxes, the Inland Revenue Board's (LHDN) use of power to ensure the continued compliance of taxpayers is unquestionably critical to the Malaysian government.

The literature on tax compliance has suffered from a few limitations over the past five decades. The integration of the power-based model and social-physiological aspects has received little attention (Kirchler et al., 2008), up to a point where some researchers refer to social-physiological qualities as taxpayers' willingness to pay taxes, whereas the power-based approach is typically viewed as a method for enforcing compliance. Moreover, prior studies only

visualise a tax compliance model with the dynamic influence of trust alone (e.g., Batrancea et al., 2019; Gangl et al., 2015; Hofmann et al., 2014; Kirchler et al., 2008; Kogler et al., 2013; Muehlbacher et al., 2011; Wahl et al., 2010), or justice and trust (e.g., Gobena & Van Dijke, 2016). However, none of the existing studies consider tax morale, the basic principles or values everyone should have before committing any action. Although these factors are not independent, the consideration of moral obligation in taxation should not be overlooked.

This paper attempts to discuss these shortcomings. This is where the position of morals comes into play, since the current research is the first of its kind linking tax morale to the measure of power in compliance with tax. Distinguishing coercive and legitimate power and including tax morale as an additional mediating component grants the study to strengthen the theoretical correlation between variables. Consequently, the study's objectives are as follows: to investigate the association between the power of tax authority (coercive power and legitimate power) and tax morale with tax compliance, and to investigate whether tax morale mediates the power of tax authority (coercive power and legitimate power) on tax compliance.

The present study underpins the theory of planned behaviour (TPB) (Ajzen, 1991) to ground the research framework, suggesting that attitude, subjective norms, and perceived behaviour influence intention, affecting behaviour. Given that behavioural intention is an intrinsic issue, it may be analogous to tax morale, similar to intrinsic motivation for someone to achieve obligations concerning tax compliance. Hence, the study proposes that LHDN's power influences individuals' attitudes. Specifically, the research design encompasses the attitude of the taxpayer toward their compliance behaviour in terms of either weak or strong power of LHDN against their morale, such that when power is in favour of the taxpayers, it will be more likely for them to develop intrinsic motivation to pay tax, which ultimately increases compliance behaviour.

Several theoretical and practical consequences may be drawn from this study. The findings may enrich the existing power and tax compliance model by blending tax morale as a potential mediating factor since limited systematic studies have blended tax morale into this framework. Practically, the results aid tax authorities in better comprehending their power mechanism in moulding taxpayer morale and tax compliance. Section 2 of this paper discusses the literature review and hypotheses development. Research methodologies

are closely reviewed in Section 3. Then, Section 4 presents the measurement used in the study. Section 5 summarises the results, followed by discussions in section 6. The theoretical and practical implications are explained in section 7. Finally, limitations and future research conclude the study.

2. Literature Review and Hypotheses Development

2.1 Power of Tax Authorities and Tax Compliance

Sustainable government revenue can only be increased through coercion, which is why sanctions and punishments (such as fines, penalties and imprisonment) are used to compel taxpayers to pay taxes (Kastlunger et al., 2013; Kirchler et al., 2008). When tax authority power is weak, taxpayers seek to maximise their outcome by abusing tax laws, which reduces the effect of voluntary tax compliance; however, when tax authority power is high, authorities can impose maximum compliance, which likely increases the voluntary tax compliance (Batrancea et al., 2019; Kirchler et al., 2008). Similarly, Chong & Arunachalam (2018) observe a positive effect of LHDN's use of power on enforced compliance. Moreover, coercive power positively influences enforced compliance (Gobena & Van Dijke, 2016; Kastlunger et al., 2013; Sadress et al., 2019). Besides, a high likelihood of being audited (Debacker et al., 2018; Fjeldstad et al., 2012; Mohd Rizal Palil et al., 2013) and high fines and penalties (Alm, 2019; Sadress et al., 2019) will encourage more tax compliance. The above is consistent with the latest studies from Da Silva et al. (2019) and Slemrod (2019), who suggest that increased power with high enforcement is meaningful for curbing tax non-compliance. Thus, this study infers the following hypothesis:

H_1: *The strong coercive power of the tax authorities positively increases tax compliance*

Conversely, legitimate power is characterised by the legitimacy of an institution's authority (Raven et al., 1998), which comprises the supply of necessary information and the ability of tax authorities to persuade individuals to identify their reasons for voluntarily paying taxes (Kastlunger et al., 2013; Raven et al., 1998). Nevertheless, past studies have shown inconsistent results regarding tax compliance and legitimate power. For example, Kastlunger et al. (2013) establish a positive (negative) relationship between legitimate power and enforced (voluntary) tax compliance. Contrarily, using legitimate

power does not affect enforced compliance but increases voluntary compliance (Gangl et al., 2015; Gobena & Van Dijke, 2016; Hofmann et al., 2014). Similarly, Sellywati et al. (2017, 2019) reveal an insignificant influence of legitimate power on tax compliance in Malaysia. Nevertheless, taxpayers' increased willingness to comply with tax is bolstered by the power of identification, which necessitates the legitimate power of tax authorities (Gangl et al., 2013).

Essentially, legitimate power fosters mutual respect and collaboration between tax authorities and taxpayers. In this sense, Gangl et al. (2020), in their research on an extended slippery slope framework (eSSF), reveal a positive relationship with tax compliance only if taxpayers have reason-based trust in tax authorities. Therefore, increased legitimate power assures that the tax authority is deemed worthy of compliance and should be obeyed by citizens. The following hypothesis is suggested considering this argument:

H_2: *The strong legitimate power of tax authorities positively increases tax compliance*

2.2   *Tax Morale and Tax Compliance*

According to Luttmer & Singhal (2014), tax morale is essential in determining whether or not an individual adheres to their tax obligations. For instance, Ortega et al. (2016) demonstrate that the right to pay taxes implies individual support for tax morale, independent of the government expenditure and other taxpayers' behaviour. Dulleck et al. (2016) also confirm a link between psychological stress and tax compliance, suggesting that moral feelings matter most when paying taxes. Recent work by Taing and Chang (2020) also supports the notion that increasing tax morale will significantly motivate participation in compliance intention among Cambodian citizens in Phnom Penh. Similarly, Chong and Arunachalam (2018) reportethat tax non-compliance is more common in those with poor tax morale. Considering the TPB, negative moral considerations may result in unfavourable behaviour, whereas favourable moral considerations may lead to positive conduct. An optimistic attitude, for example, is thought to be linked to better tax compliance. Thus, the abovementioned studies allow for the proposal of the following hypothesis:

H_3: *High tax morale positively increases tax compliance*

2.3   Power of Tax Authorities and Tax Morale

According to Filippin et al. (2013), strict formal law enforcement, associated with compulsion through coercive power, promotes favourable tax morale. The reason is that individuals are inherently averse to paying taxes unless there is a compelling reason to do so. This is corroborated by the recent studies of Mickiewicz et al. (2019) and McCulloch et al. (2020) in Latvia and Nigeria, respectively, that high penalties and the perception of the likelihood of being caught are associated with higher tax morale. In addition, weak enforcement, for example, weak penalties and legitimacy, affects taxpayers' motivation to obey the law (Slemrod, 2019). Bruno (2019) also suggests that poor tax enforcement within the political institution may only weaken tax morale due to the inefficient tax collection of the tax authorities. Emanating from this, the current study tests the following hypothesis as follows:

H_4: *The strong coercive power of tax authorities positively increases tax morale*

Legitimate power presupposes collaboration and communication between taxpayers and tax authorities may be increased since it gives taxpayers a reason to trust the expertise of tax authorities, especially their willingness to exchange tax information (Hofmann et al., 2014). The reason is that people tend not to disobey tax laws when tax authorities have a good reputation and taxpayers have faith that they will work with them when the tax system is well-established. This condition can be understood as a fair-play rule, wherein taxpayers are likely to display high morale as the efficient means of addressing their tax issues (Hofmann et al., 2014). Given this notion, the legitimacy of tax authorities that regard citizens as clients, rather than solely viewing taxpayers as individuals who need to pay taxes, contributes to a better social relationship between taxpayers and tax authorities, ultimately increasing tax morale (Mickiewicz et al., 2019). Therefore, strong legitimate power gives the rationale for the following hypothesis:

H_5: *The strong legitimate power of tax authorities positively increases tax morale*

2.4   The Mediating Role of Tax Morale

The rising acknowledgement of tax morale has recently been appropriately put into tax research. However, previous research has ignored the possible mediation influence of tax morale, particularly its role as an intervening mechanism. As suggested by Doran (2009),

the justification for including tax morale in the tax compliance model is based on the rationale of the norms model, which asserts that taxpayers are inclined to satisfy their tax responsibilities because they wish to comply with particular societal or personal standards. In addition, the motivation to incorporate tax morale as a mediator stems from the rising evidence indicating that morale costs might be crucial in altering human behaviour (Levitt & List, 2007). As crucial as tax morale is, questions about its nature regarding power factors must be addressed. Correspondingly, this study hypothesises that LHDN's power over a person with deliberate tax morale would likely result in the latter seeing differences in tax compliance. The example shown in Table 1 demonstrates how the link between power and tax compliance might be mediated by tax morale.

Table 1: Mediation of tax morale between power of tax authorities and tax compliance

Power of tax authorities	Tax morale	Tax compliance
Indicate the capacity of tax authorities to use a coercive or legitimacy-based strategy to combat tax evasion.	Since taxpayers are seen as rationally unwilling to pay taxes, they will likely change their moral behaviour if there is a compulsion to motivate them by establishing power from tax authorities.	Taxpayers are assumed to be more compliant with tax authorities in a condition of the strong power of tax authorities and vice versa.

Accordingly, Figure 1 illustrates the research design and the following mediation hypotheses are proposed:

H_{1a}: *Tax morale mediates the effect of the coercive power of tax authorities on tax compliance*

H_{2a}: *Tax morale mediates the effect of the legitimate power of tax authorities on tax compliance*

Figure 1: Hypothesised research model
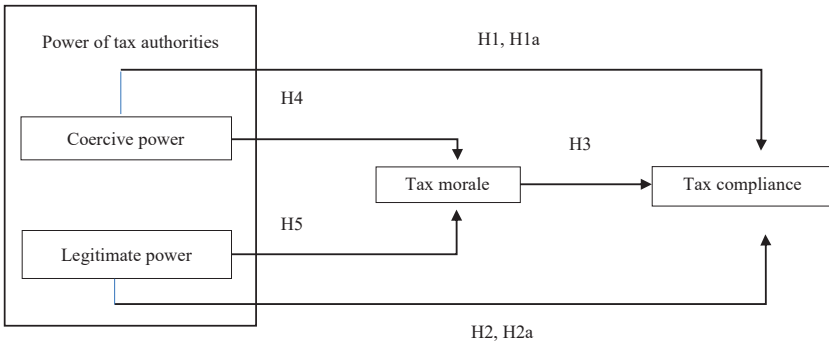
3. Method

3.1 Sampling and Data Collection

This study applies a quantitative approach. Due to no sampling frame available, the study employs non-probability sampling to determine the minimum sample size through power analysis. By convention, the G*Power application was set at (power = 0.80, α = 0.05, f^2 = 0.15 with three predictors). Based on G*Power, the minimum sample size was 77 respondents. However, the study managed to collect 116 respondents. The study's primary units of analysis were the individual respondents, from employed and self-employed taxpayers.

4. Measurement

Survey data were gathered based on the existing study of tax measures. Respondents were asked to rate their responses on a scale of 1 (strongly disagree) to 5 (strongly agree). Accordingly, the questionnaires were modified to meet the requirements of Malaysia's tax climate. Table 2 presents the items used in the questionnaire.

Table 2: Construct, items and measures

Construct	Items	Measurement	Source
Coercive power	CP_1	LHDN primarily aims to punish	Kastlunger et al. (2013)
	CP_2	LHDN investigates as long as they find something	
	CP_3	LHDN nurtures hostile feelings toward taxpayers	
	CP_4	LHDN interprets tax laws in order to punish the highest number of taxpayers	
Legitimate power	LP_1	Tax evasion is detected in a high percentage of the cases	Kastlunger et al. (2013)
	LP_2	LHDN combats tax crimes in an efficient way	
	LP_3	Tax evasion is likely to be detected by LHDN	
	LP_4	Due to the knowledge and competence of LHDN, they are able to detect quite every act of tax evasion.	
Tax compliance		*When I pay my income taxes as required by the Malaysian tax laws and regulations, I do so...*	Kirchler & Wahl (2010)
	TC_1	because I pay my taxes voluntarily	
	TC_2	by spending a long time thinking how I could reduce them	
	TC_3	because to me it is obvious that this is what I do	
	TC_4	even if tax audits did not exist	
	TC_5	to support the country and other citizens	
	TC_6	because I do not like to contribute to everyone's good	
Tax morale	TM_1	Cheating on tax if you have the chance	Inglehart et al. 2014)
	TM_2	It is wrong if a taxpayer does not report all of his or her income in order to pay less income taxes	ISSP Research Group (2000)
	TM_3	Taxes are so heavy that tax evasion is an economic necessity for many to survive.	Torgler (2003b)
	TM_4	Since everybody evades taxes, one can hardly be blamed for doing it	

4.1 Tax Compliance

Specifically, Kirchler and Wahl (2010) characterise tax compliance as the taxpayer's willingness to pay taxes, whereas tax non-compliance is the behavioural effect of paying fewer taxes than the law requires. Borrowing from Kirchler and Wahl (2010), the dependent variable of this study measures the likelihood of a taxpayer complying with tax laws or the extent to which individuals view tax payment as a moral responsibility.

4.2 Power of Tax Authorities

The power of tax authorities c be separated into two categories: legitimate and coercive power (Turner, 2005). Legitimate power addresses the efforts of tax authorities to reduce tax offences based on their expertise and capacity. Coercive power, on the other hand, tries to influence and compel individuals against their will through fines, penalties, and punishments (Kastlunger et al., 2013). Additionally, Hofmann et al. (2014) illustrate coercive power as penalising bad (and rewarding good) behaviours, while legitimate power is an act to promote the transparency of tax authorities. For this study, both legitimate and coercive power instruments were adopted from Kastlunger et al. (2013).

4.3 Tax Morale

Tax morale relates to an intrinsic motivation to pay taxes (Cummings et al., 2006; Luttmer & Singhal, 2014; Torgler, 2005; Torgler et al., 2007) or moral principles and values concerning paying taxes (Torgler & Murphy, 2004). The present study utilises a question from Wave 6 of the World Values Survey (WVS) 2010-2012 to assess tax morale. The WVS, a global network of social scientists, studies socio-cultural and political developments and accumulates comparative data on people's values and belief systems. A question from the International Social Survey Program (ISSP) is also used in this study to gauge taxpayers' morale. The ISSP is a cross-national collaboration initiative with European and Asian participants conducting annual surveys on various social science-related issues. Alm and Torgler (2006) and Torgler (2011) suggest that a multi-item index was found to have little advantage over one question from WVS and ISSP to measure tax morale, respectively. Having many data sets is advantageous since it allows the current study to evaluate robustness, validity, and reliability. Following this logic, an additional two tax morale questions from Torgler (2003) were adopted.

5. Results

As shown in Table 3, 116 individual taxpayers participated in the survey. East Malaysia (Sabah and Sarawak) was chosen for a few reasons. As far as the author is aware, a thorough investigation of the power of tax authority, tax morale and tax compliance in East Malaysia has not yet been carried out. Next, East Malaysia is unique from Peninsular Malaysia because it is composed of diverse ethnicities. For illustration, Sabah belongs to 42 ethnic groups (Chan, 2015), while Sarawak is populated by six major ethnic groups (Sarawak Tourism Federation, 2018). In terms of median income, Sabah and Sarawak were ranked number 11 and 12, respectively, across 16 states/regions/territories in Malaysia (DOSM, 2017). The respondents were primarily between the ages of 31 and 40, with 55.2% being female. About 70% of the respondent had a Bachelor's or Master's degree. Most respondents work in the public and private sectors, with only a small number of self-employed respondents (5.2%). The distribution showed that 66.4% earn between RM3,000 and RM10,000 per month, but none earn more than RM15,000 per month.

Table 3: Demographic information of respondents

Items	Frequency (N = 116)	Percentage (%)
Gender		
Male	52	44.8
Female	64	55.2
Age		
< 30 years old	26	22.4
31–40 years old	70	60.3
41–50 years old	13	11.2
51–60 years old	7	6.0
Marital status		
Single	45	38.8
Married	70	60.3
Divorced	1	0.90
Highest level of education		
Secondary school or equivalent	3	2.6
Diploma	12	10.3
Bachelor's degree (e.g., BA or BS)	40	34.5
Professional (e.g., ACCA or CIMA)	5	4.3
Master's degree (e.g., MA or MS)	42	36.2
Doctorate (e.g., PhD or Ed.D.)	14	12.1

Items	Frequency (N = 116)	Percentage (%)
Current occupational status		
Self-employed	6	5.20
Public sector-employed	69	59.5
Private sector-employed	41	35.3
Monthly personal income*		
Up to RM3,000	33	28.4
RM3,001–RM5,000	35	30.2
RM5,001–RM10,000	42	36.2
RM10,001–RM15,000	6	5.20
Above RM15,001	0	0.00

* Income level measured in ringgit (RM). At the time of data collection, RM1 was equivalent to the US$0.25

5.1 Data Analysis and Procedures

During the pre-analysis phase, all data were initially input into IBM SPSS Version 28 for data cleaning and screening, along with descriptive and inferential analyses. Using the statistical web analysis by Cain et al. (2017), the normality assumption revealed a statistically significant p-value for the Mardia coefficient (Mardia, 1974) for both multivariate skewness and kurtosis. This implied that the data comes from non-multivariate normal, which warrants using PLS-SEM. As a result, we followed the two-step measurement and structural model procedure from Hair et al. (2017), which is detailed in the next section.

5.2 Assessment of Measurement Model (Reliability and Validity)

This assessment aims to validate the constructs' internal consistency, indicator reliability, convergent validity, and discriminant validity (Hair et al., 2017). Table 4 summarises the measuring model. Internal consistency reliability illustrates the similarity of scores among the items used to measure a construct (Hair et al., 2017). In this line, the composite reliability (CR) index is preferred above Cronbach's alpha (α). The reliability indications for α rely on the number of items in the tested constructs (Hair et al., 2017). Thus, it is suggested to deviate from using α, with CR being proposed as a substitute for reliability assessments (McNeish, 2017). For a reflective construct, any CR values between 0.70 and 0.90 were considered satisfactory and indicative of internal consistency reliability (Hair et al., 2017).

In this study, loadings above 0.708 were kept, while those below 0.40 were deleted (Hair et al., 2016, 2017; Hulland, 1999).

Consequently, low-loading items were eventually omitted. During the deletion procedure, all four constructs satisfied the threshold values for CR and average variance extracted (AVE), with all CR values above 0.708 and all AVE values exceeding 0.50. The AVE values in Table 4 vary from 0.554 to 0.614, indicating that all constructs met the requirement of convergent validity.

Table 4: Measurement model

Construct	Items	Indicator reliability	Internal consistency reliability		Convergent validity
		Outer loadings	α	CR	AVE
		> 0.60	> 0.70	> 0.708	> 0.50
Coercive power	CP_1	0.759			
	CP_3	0.840	0.695	0.826	0.614
	CP_4	0.748			
Legitimate power	LP_1	0.746			
	LP_2	0.787	0.800	0.858	0.603
	LP_3	0.753			
	LP_4	0.817			
Tax compliance	TC_1	0.787			
	TC_2	0.800			
	TC_3	0.752	0.828	0.876	0.586
	TC_5	0.742			
	TC_6	0.745			
Tax morale	TM_2	0.726			
	TM_3	0.780	0.608	0.788	0.554
	TM_4	0.727			

Note: CP: coercive power; LP: legitimate power; TC: tax compliance; TM: tax morale

Discriminant validity in Table 5 and Table 6 determines whether a construct is unique from other constructs based on an empirical criterion and does not inadvertently measure a different item. In PLS-SEM, Henseler et al. (2015) recommend HTMT as a preferable alternative to cross-loadings and Fornell-Larcker's criterion (Fornell & Larcker, 1981) for evaluating discriminant validity. Two approaches for diagnosing HTMT: the HTMT criterion and the HTMT inference. Table 5 demonstrates no violation of discriminant validity on cross-matrix rows and columns, since the HTMT criteria values are significantly below the threshold values of $HTMT_{.85}$ (HTMT value

< 0.85) (Kline, 2011) and HTMT$_{.90}$ (HTMT value < 0.90) (Gold et al., 2001). In addition, HTMT inference in Table 6 fulfils the discriminant validity requirement, as the confidence interval (CI) does not contain a value of 1 for any of the constructs (Henseler et al., 2015).

Table 5: Discriminant validity (HTMT criterion)

	Coercive power	Legitimate power	Tax compliance	Tax morale
Coercive power				
Legitimate power	0.262			
Tax compliance	0.121	0.162		
Tax morale	0.533	0.166	0.327	

Table 6: Discriminant validity (HTMT inference)

	Original sample	Sample mean	Confidence interval bias corrected	
			5%	95%
Legitimate power -> coercive power	0.262	0.324	0.180	0.501
Tax morale -> coercive power	0.533	0.572	0.337	0.843
Tax morale -> legitimate power	0.166	0.264	0.150	0.405
Tax compliance -> coercive power	0.121	0.206	0.121	0.334
Tax compliance -> legitimate power	0.162	0.221	0.126	0.357
Tax compliance -> tax morale	0.327	0.389	0.232	0.555

5.3 Collinearity Assessment

Before evaluating the structural model, it is essential to confirm that there are no lateral collinearity issues. Based on Kock & Lynn (2012), the problem of lateral collinearity can occasionally mislead discreetly because the significant causal influence in the model might be masked while meeting the discriminant validity criteria. An inner variance inflation factor (VIF) of more than 5 indicates lateral multicollinearity issues (Hair et al., 2016). However, all inner VIF values of the other independent variables in this study are less than 5 (tax morale VIF = 1.148, coercive power $_{VIF}$ = 1.166 and legitimate power $_{VIF}$ = 1.021).

5.4 Assessment of Structural Model (Hypothesis Testing)

Based on Hair et al. (2019), the relationships between the constructs in the model were evaluated using bootstrapping approaches (5,000 resamples) so that the path coefficients, standard errors (SE), p-values, t-values, and confidence intervals could be generated and assessed. Under most scenarios, bootstrapping is the most effective and appropriate way to determine the significance of indirect effects (Preacher & Hayes, 2008). Confidence interval bias corrected (CIBC) of upper and lower limits is checked to establish the significance of a result rather than depending just on *t*-values and *p*-values. If the bootstrap value of the confidence interval does not straddle at zero, the result is statistically significant (Hair et al., 2019).

5.5 Direct Effect

In this study, subsamples of 5,000 with the one-tailed test were used to determine the direct effect using a bias-corrected and accelerated (BCA) bootstrap. From a conceptual standpoint, it is reasonable to use a one-tailed test rather than a two-tailed test in the direct effect analysis, particularly when the development of the hypothesis is directional (Ramayah et al., 2018). As shown in Table 7, hypothesis testing for direct effects was reported. The direct relationship between the two powers of tax authorities (coercive and legitimate power) on tax compliance showed an insignificant outcome. Hence, H1 (β = 0.012, t = 0.102, CI = -0.181, 0.211) and H2 (β = 0.160, t = 1.244, CI = -0.094, 0.333) were not accepted. In contrast, a positive hypothesis between tax morale and tax compliance (H3) was rejected since a significant and negative association between tax morale and tax compliance was discovered (β = −0.296, t = 2.307, CI = -0.485, -0.078). Nonetheless, coercive power exhibited a positive and significant link with tax morale, supporting H4 (β = 0.355, t = 3.501, CI = 0.197, 0.528). However, an insignificant direct effect was evident between legitimate power and tax morale, allowing the study to reject H5 (β = 0.024, t = 0.120, CI= -0.327, 0.317).

In addition, each construct variance amount will be checked via the coefficient of determination (R^2) and path coefficients. For this observation, the R^2 value for tax compliance was 0.104, indicating that coercive power, legitimate power, and tax morale predicted 10.4% of the variation in tax compliance. Meanwhile, the R^2 value of 0.129 indicated that coercive and legitimate power explained 12.9% of the variation in tax morale. The effect size (f^2) was measured as per Cohen (1988), and the values of 0.02, 0.15 and 0.35 suggested

small, medium-sized and large effects, respectively. The results addressed coercive power as having medium-sized effects on tax morale, whereas legitimate power had no effects. Regarding tax compliance, coercive power revealed no effect, whereas legitimate power and tax morale had a small effect on producing R^2 for tax compliance. Concerning tax compliance, coercive power showed no effect, although legitimate power and tax morale had a small effect on generating R^2 for tax compliance.

A predictive relevance (Q^2) research model will be determined using blinding procedures (Geisser, 1974; Stone, 1974). The Q^2 value of tax compliance and tax morale was 0.036 and 0.033, respectively. Both values were above zero, indicating the existence of predictive relevance. For this study, a small degree of predictive relevance was found concerning the endogenous variable of tax morale and compliance (Hair et al., 2017).

5.6 Mediating Effect

The study employs a bootstrapping process provided in SmartPLS software. As suggested by Hair et al. (2019), the mediation effect will be validated following Preacher & Hayes (2004, 2008). Moreover, a new debate in the mediating hypothesis claims that statistically significant direct effects are unnecessary for mediation to occur (Nitzl et al., 2016). On this consideration, the bootstrap confidence interval technique was set to BCA bootstrap since it was believed to be the most effective way to detect the mediation effect (Hayes & Scharkow, 2013). Following the suggestion of Nitzl et al. (2016), Preacher & Hayes (2008) and Zhao et al. (2010), the mediation hypothesis in H1a and H2a will be diagnosed using the bootstrapping procedure using a 95% CI with 5,000 resamples at a two-tailed test. A two-tailed test was chosen due to the study's mediation hypotheses in a non-directional form.

The bootstrapping result in Table 7 shows that the indirect effects of coercive power on tax compliance (β = -0.105, 95% CI = -0.200, -0.005) via tax morale were significant at $t > 1.645$ and $p < 0.05$, implying a mediation where the indirect effect 95% boot CI bias-corrected does not pass zero (Preacher & Hayes, 2004, 2008), thus providing support for H1a. In contrast, a non-significant mediation effect via tax morale was evident between legitimate power and tax compliance (β = -0.007, 95% CI = -0.143, 0.076), thus rejecting H2a.

Finally, it is essential to gauge the magnitude of the mediation analysis. Based on the guidelines of Zhao et al. (2010, p. 201), the study conducted two subsequent steps: first, assessing the

significance of the indirect effect (a*b), and second, determining the type of mediation. When attempting to determine the type of mediation, the study looked at three criteria: the significance of the indirect effect (a*b), the significance of the direct effect (c′), and the direction in which the effect was occurring (a*b*c′). As depicted in Table 7 and Table 8, although the direct effect (c′) was insignificant for (*CP -> TC*), a significant indirect effect (a*b) of (*CP -> TM -> TC*) was found in the study. Thus, indirect only (full mediation) was concluded for H1a. Additionally, the study concluded that tax morale did not mediate the association between legitimate power and tax compliance, as both the indirect and direct effects are insignificant, allowing the study to reject the mediation hypothesis of H2a.

Table 7: Structural model (direct and mediating effect)

Hypothesis: Path model / Direct effects	Path coefficient (β) of c′	SE	t	p	5% CIBC LL	95% CIBC UL	Decision	f^2	R^2	Q^2
H1: CP -> TC	0.012n.s	0.116	0.102	0.459	-0.181	0.211	Rejected	0.000 (none)	0.104	0.036
H2: LP -> TC	0.160n.s.	0.129	1.244	0.107	-0.094	0.333	Rejected	0.028 (small)		
H3: TM -> TC	−0.296	0.128	2.307	0.011	-0.485	-0.078	Rejected	0.085 (small)		
H4: CP -> TM	0.355	0.102	3.501	$p < 0.01$	0.197	0.528	Supported	0.142 (medium)	0.129	0.033
H5: LP -> TM	0.024n.s.	0.199	0.120	0.452	-0.327	0.317	Rejected	0.001 (none)		
Mediating effects	Path coefficient (β) of (a*b)	SE_{Boot}	t	p	2.5% CIBC LL	97.5% CIBC UL	Decision			
H1a: CP -> TM -> TC	−0.105	0.059	1.798	0.036	-0.200	-0.005	Supported			
H2a: LP -> TM -> TC	−0.007 n.s.	0.065	0.108	0.457	-0.143	0.076	Rejected			

Note: TC: tax compliance; TM: tax morale; LP: legitimate power; CP: coercive power; n.s.: not significant; SE: standard error; CIBC: confidence interval bias corrected; f^2 and Q^2 = 0.02 small effects, 0.15 medium-sized effects, and 0.35 substantial effects; Direct effect: c′; indirect effect: a*b

Table 8: Type of mediation

Predictor -> mediator ->Criterion	Indirect effect (a*b)	Direct effect (c′)	Direction (a*b*c′)	Type of mediation
H1a : CP -> TM -> TC	-0.105 (Sig.)	-0.012 (ns)	n/a	Indirect only (full mediation)
H2a : LP -> TM -> TC	-0.007 (ns)	0.160(ns)	n/a	No effect (no mediation)

Note: TC: tax compliance; TM: tax morale; LP: legitimate power; CP: coercive power; ns: non-significant; Sig: significant

6.   Discussion

The present study allows for several observations to be drawn. Our result was consistent with Raihana et al. (2014) in Malaysia that coercive power via threats of fines and penalties are insignificant for salaried taxpayers who comply with tax regulations. Emanating from this, conducting tax audits on salaried taxpayers is considered inefficient (Loo et al., 2009). Given that 95% of the sample in the study were salaried workers, it was presumed that their tax environment was relatively simple because their employers withhold a percentage of their salary following the scheduled tax deductions. Nonetheless, penalties will still be effective if these taxpayers continue to evade taxes, irrespective of their employment status. The rejection of H2 is consistent with Gangl et al. (2015), Gobena and Van Dijke (2016) and Hofmann et al. (2014), who found non-significant effects of legitimate power on tax compliance. This study also corroborates the findings of Sellywati et al. (2017, 2019) in Malaysia, which concluded that neither coercive nor legitimate power directly affected tax compliance.

The study's outcome confirmed those of Mickiewicz et al. (2019) and McCulloch et al. (2020) that vigorous formal law enforcement in the form of high penalties and the likelihood of being caught will shape the intrinsic motivation or the tax morale of taxpayers. Additionally, imposing weak enforcement was a cause of low tax compliance (Slemrod, 2019; Williams & Horodnic, 2016). In the same vein, Bruno (2019) also acknowledged the importance of having good political institutions accompanied by strong enforcement to inspire higher tax morale.

The study evidence a significant and negative direct association between tax morale and tax compliance, contrary to hypothesis H3. This research supports the assertion of Horodnic (2018) that a high degree of tax morale (such as an attitude) does not necessarily

and inevitably promote tax compliance (such as behaviour). Our findings are similar to Raihana et al. (2014), who stated that deterrent action by tax authorities could only result in rebellious behaviour among individuals with a positive attitude, thereby making them less cooperative, even though they had an inherent desire for tax compliance at first. As suggested by Alm et al. (2020), deterrence action may shrink taxpayers' intrinsic motivation to pay taxes as they act to defend themselves in response to the government's pervasive compulsion to enforce compliance with penalties, audits and imprisonment.

It is reasonable to assume that citizens who abide by tax laws may interpret tax compliance differently than those who intend to evade taxes. As TPB suggests that taxpayers may act and behave differently from others, taxpayers should be handled differently with respect to tax audits and fines. The study also acknowledged that when tax morale serves as a mediating variable, the use of coercive power against taxpayers simply serves more to cultivate changes in tax morale than the legitimate power, contributing more to the variances in tax compliance.

7.   Theoretical and Practical Contribution

This study makes a significant theoretical contribution which suggests that in order to sustain tax compliance, moral consideration should not be overlooked due to its mediating value. The present study provides further theoretical support for coercive power in explaining the variance in tax morale and tax compliance. Next, no comparison studies have been conducted in East Malaysia that attempt to combine the power of tax authorities and tax morale into the tax compliance model, allowing the study to contribute to the literature by filling a gap in the population.

Although the study focuses on Malaysia, in light of Malaysia's tax climate characteristics, the authors believe the study has several practical implications. Notwithstanding the existing evidence on the effect of power on tax compliance, this research provides empirical evidence of the shortfall of power-based mechanisms in attaining similar goals. For instance, coercive power may not necessarily result in greater tax compliance since it creates a climate of mistrust in society, and legitimacy may not provide equivalent tax revenues without the pressure to compel taxpayers. For this reason, LHDN should investigate if raising tax morale, by its nature, increases tax compliance. Even if taxpayers have a high sense of moral duty, they may rebel against deterrent measures as their behaviour is very

subjective. The reason is that morale is highly dependent on social and personal context. Thus, this research extended the notions of how the importance of taxpayers is treated differently (Braithwaite, 2014).

Another practical insight that LHDN can harness is that coercive power tends to be more effective in altering individuals' tax morale than legitimate power if both powers are used jointly. This is particularly true for individuals with the intention to avoid paying taxes, as Slemrod (2019) argues that taxpayer morale to comply with the law would be lowered if poor enforcement and penalties were present in the tax system. Nevertheless, using coercive force alone to ensure tax income may be possible, but the long-term effect of the deterrent mechanism, especially in nations with democratic systems, makes it more doubtful than sufficient. In this sense, the use of legitimate power should not be ignored, despite the non-significant findings in this study.

The premise is that strengthening tax enforcement and monitoring through higher fines and penalties may encourage taxpayers to be more self-reliant in meeting their tax obligations, fostering more positive tax morale. Nonetheless, it is recommended that LHDN approach honest taxpayers differently, with good cooperation and good communication. Therefore, LHDN can utilise findings in the study to make the right decision between the two competing powers.

8. Conclusion

Unlike previous studies, the relationship between the power of tax authorities and tax morale with tax compliance was investigated in this study using PLS-SEM with bootstrapping. This study found no influence of coercive or legitimate power on tax compliance. Moreover, tax morale demonstrates a significant mediating impact between coercive power and tax compliance, with coercive power being more essential than legitimate power in raising tax morale.

This study is not free from limitations. Since this study is still in its infancy, the preliminary analysis's low response rate may rule out a few hypotheses. Besides, an extensive measure of taxpayers' income background should be included. In this study, only a small percentage of participants who participated in the survey were self-employed or in the high-income category. A balanced number of respondents may yield a better view.

Future research should consider expanding the existing tax compliance model to be tested in other settings to gain further insight into the subject. Future research can also blend other

sociodemographic variables as potential moderators (for example, age, gender, education level, ethnicity, and income). For illustration, ethnic diversity (Belmonte et al., 2018; Lewis et al., 2009) can impact taxpayers' compliance behaviours. In summary, we presented a model of tax compliance in a set of frameworks that blend the power of tax authority and tax morale, which will be helpful in future research.

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